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## **State retrenchment and administrative reform in Ireland:**

### **Probing comparative policy paradigms**

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## Abstract

Policy choices in response to crisis may carry consequences both for distributive outcomes and for the future policy capacity of the state itself. In this paper, we use conceptual heuristics to interpret policy practice. We examine the underlying policy paradigms shaping Irish government decisions in the aftermath of the European financial and economic crisis. Drawing on comparative political economy scholarship, we distinguish between two such paradigms - market-conforming and social equity - and apply them to three reform themes: reconfiguration of public budgets, the public service pay bargain, and the organizational profile of state competences. Our findings entail lessons for understanding the malleability of policy choice, and how state policy choices in response to crisis are framed and implemented.

## Keywords

GFC, comparative policy paradigms, Ireland, public sector reform, political economy

## Introduction

Among the countries of the Eurozone, Ireland was one of those most severely affected by the economic and financial crisis that began in 2008. The collapse in revenue and the rapid increase in sovereign debt from this time resulted in the Irish government entering an IMF-EU-ECB (the 'Troika') loan programme in late 2010. Under the terms of the programme, the Irish government was obliged not only to accept a structured loan agreement, but also, and still controversially, to accept the entire burden of making good the banks' shareholders. This resulted in an intensified phase of 'austerity' between 2010 and 2013 involving a combination of sharp cuts to public spending and an increase in tax rates, bands, and bases. Ireland exited the 'bail-out' in late 2013 when it returned to the bond market. But the obligation to monitor fiscal policy closely continued, due to the requirements to reduce the fiscal deficit to below 3% by 2015, to conform to the loan repayment schedule, and to comply over the longer term with the terms of the EU's Fiscal Compact.

The crisis in Ireland over this 2008-13 period brought about a sharp process of fiscal consolidation that was unprecedented not only in national terms, but also internationally for a polity not previously considered as a trailblazing or radical reformer. The Irish administrative system falls firmly into the Westminster-Whitehall tradition, and post-1990 administrative reforms tended to follow the general pattern of those introduced under the banner of New Public Management (NPM), albeit with limited direct effect (Hardiman & MacCarthaigh 2011). Indeed, while the Irish economy is considered one of the most open in the world, the administrative system had remained resistant to global trends favouring the introduction of more market-like practices in the public sector. However, the experience

over the period under examination in this study suggests a break from this isomorphic model, towards a more distinctive reform agenda that was unlikely to have occurred in the absence of economic and financial crisis.

The explanatory puzzle we address in this paper centres on the policy choices made by government in the context of intense pressure to reduce public spending and reform the public sector. Irish administrative reform occurs in the context of a political party system that is distinctive by virtue of its relatively low degree of ideological differentiation. The historical absence of a strong left-right cleavage, and the traditional clustering of support to the centre-right, has had an effect of depoliticizing how policy choices are framed (Kennedy & Sinnott 2006). The mantra to the effect that ‘there is no alternative’ became a feature of the Irish government’s justifications for retrenchment and consolidation measures, allied to the stipulations of the deal struck with the Troika. In contrast with other European governments that initially attempted to respond to the crisis with fiscal stimulus, the centre-right Fianna Fáil-led government of 2007-11 adopted fiscal correction as its early and enduring priority. The coalition of centre-right Fine Gael and centre-left Labour which came to power in February 2011 did not disavow these policy priorities but accepted them as a matter of public necessity (Dellepiane-Avellaneda & Hardiman 2012b; Hardiman 2014).

The strong fiscal retrenchment measures undertaken within the framework of the loan programme caused Ireland to be considered internationally, between 2010 and 2013, as a paradigm case, a model exponent of programme implementation. Considerable domestic political effort was invested in distinguishing Ireland’s experiences from those of Greece and Portugal, also subject to external loan programmes. The crisis also entailed a new emphasis

on structural reform of public administration, since even though these were not detailed in the loan programme, they were driven by the urgent need to achieve cost savings and efficiency gains. The content and implications of these administrative reforms have been less closely analysed than the economic reforms. Yet taken together, the profile of fiscal and organizational responses to crisis raises interesting questions about the scope of state activity, the strategic priorities adopted, and the distributive consequences of the choice of means of policy implementation. There was very little evidence for an explicitly ideologically-driven attack on either the range and substance of state policy commitments or indeed on the legitimacy of state activism itself. So how can we understand the significance of the policy choices that were adopted and implemented?

## Framework for Analysis

Peters et al (Peters, Pierre, & Randma-Liiv 2011) argue that it has been difficult to discern any new governance paradigms emerging internationally from the global financial crisis. They point to the considerable varieties of state configuration that determine different responses, the different policy tools available to governments, and the absence of new ideas on which to base a reform agenda. Pollitt similarly argues that states have been forced to identify their own policy approaches for addressing the effects of the crisis (Pollitt 2010). What is at issue is the discursive or ideational framework underlying policy choice, when this is presented as a pragmatic or even technocratic set of responses. Policy choices entail distributive consequences and have implications for the capacity of the state to function well. Competing policy options can be explored with a view to assessing the wider

implications affecting distributive outcomes, and the further consequences for state capacity.

In order to situate the Irish case of crisis-inspired fiscal and administrative reforms we draw upon literature from comparative political economy to draw a distinction between two approaches which each present a particular interpretation of the role of an administrative system in hard times. These may be construed as competing policy paradigms, or 'frameworks of ideas and standards' (Hall 1993: 279; see also (Blyth 2013; Hall 2013). In the first approach, the implementation of a fiscally orthodox strategy, combined with a commitment to securing public sector efficiencies, might be expected to result in a systematic approach to rolling back the welfare state and diminishing the interventionist capacities of the state in production, regulation, and redistribution. Extreme economic conditions can provide a political opening for advocates of state restructuring. We would expect this approach to be animated by a clear set of efficiency-based outcomes (Bozeman 2007), to be motivated by a commitment to reversing entitlements to welfare transfers and services, and to be geared toward achieving a smaller and market-friendly role for the state administration. In such a context, a preference for (re) centralized strong administrative organization achieved by means of consolidation, integration and standardization is preferred.

We might also expect that policy would particularly target those privileged groups exercising veto power over the allocation of resources, or enjoying special benefits from regulatory provisions. Moreover, it has been noted that the orthodox policy prescription for achieving fiscal retrenchment –cutting back spending in preference to raising new taxes – is explicitly

animated by a commitment to constraining and indeed reversing the scope of welfare entitlements (Blyth 2013a). Fiscal priorities of this sort are likely to be politically more appealing to parties of the right. Summarizing these features, we propose a *market-conforming* approach to fiscal and administrative reforms in response to crisis.

Alternatively, we might anticipate that the pressure to reduce fiscal deficits and the costs of public administration might be motivated by a different kind of ideological orientation. An adjustment strategy might not be actively hostile to the goals of welfare policy and state activism, but could be devoted to prioritizing efficiency and value for money with a view to maintaining service levels. We might expect this policy orientation to be particularly motivated by equity considerations in distributive outcomes, as well as an aversion to state retreat or outsourcing. Fiscal priorities in this approach might favour revenue increases over spending cuts as a means of addressing fiscal deficits, the better to protect client groups dependent on the welfare state and to maintain the quality of public services. We might expect that left-leaning governments would be more sympathetic to fiscal priorities of this sort (Mulas-Granados 2010) as well as organizational forms that facilitate interweaving non-state actors in the policy process through partnerships and networks. In summary, we expect that fiscal and administrative reforms could align behind what we here term a *social-equity* approach to dealing with crisis.

**Table 1: Characteristics of market conforming and social equity approaches to reform**

Key Features	Market conforming	Social equity
Trajectory of development	‘Retreat’	Maintenance of status quo



<b>Organisational bias</b>	Integration, consolidation, standardization, vertical co-ordination	Networks, horizontal co-ordination
<b>New mode of delivery</b>	Exit, outsourcing	Stakeholder partnerships, networks,
<b>Values</b>	Efficiency, Hierarchy	Equity, Cohesion

Using these paradigms, we examine policy decisions and outcomes in Ireland's responses to crisis along three related themes which are prominent manifestations of administrative reform efforts. The three are not mutually exclusive, but taken together, they give us with a more comprehensive insight into the mode of adjustment adopted in Ireland. They are:

1. The fiscal policy changes undertaken – the impact of spending cuts and the composition and incidence of tax increases.
2. The changes wrought to the 'public service bargain', and the implications for the size and shape of the public administration.
3. The implications of organizational change in the public administration itself.

The two ideational models summarized above would lead us to have different expectations about how the policy response to crisis would be implemented in each of these thematic areas. Table 2 provides a summary.

***Table 2: Characteristics of reform agendas along market conforming and social equity approaches***

Reform themes	Characteristics of market conforming approach	Characteristics of social equity approach
<b>Reconfiguration of public budgets</b>	Front loading of cuts, 'cold shower' approach	Progressive cuts to welfare, education and health spending; deeper cuts to capital than current budgets
<b>Public Service Bargain</b>	Move towards more contractual bargain; cuts in headcount numbers	Emphasis on shared responsibilities and accountability; public service motivation
<b>Organizational change</b>	Widespread organizational closures/terminations; centralized management; new Ministries to manage cuts; privatization of state enterprises	Emphasis on stronger agency co-ordination, integration and mergers; decentralized management; Ministries to focus on policy co-ordination; nationalization of industries

#### *Reform theme 1: Reconfiguration of public budgets*

In the market conforming approach, an 'orthodox' approach to fiscal consolidation, involving front-loaded 'cold shower' adjustment, mainly through spending cuts, can be expected and encouraged by lessons from previous recessions (Dellepiane-Avellaneda 2014; Dellepiane-Avellaneda & Hardiman 2014; Pisani-Ferry 2007). In this scenario, we may expect sharp reductions in social welfare provision, as well as cuts in other large spending areas like health and education. In contrast, a social equity approach will prefer tax increases to spending cuts, progressivity in any cuts that are made, and maintenance of the state's capacity to undertake capital investments for productive and social purposes.

## *Reform theme 2: Public Service Bargain*

In their work on the 'public service bargain' (PSB), Hood and Lodge explored the conventions that underpin the relationship between political executives and bureaucratic systems (Hood & Lodge 2006). A common formulation of this bargain is that in return for providing loyalty and competency to their political masters, bureaucrats are provided with security of tenure and a level of remuneration such that they will not be induced to seek or accept bribes. And in return for politicians forfeiting the right to appoint, fire and change the terms of employment and tenure at will, bureaucrats adopt anonymity and forfeit the right to blame or express opposition to the government.

More recently, Lodge and Hood present a variety of scenarios for politico-administrative relationships in the context of the global economic crisis, demographic trends and environmental change (Lodge & Hood 2012). For those states that have moved into the category of 'high financial vulnerability' as a result of the crisis, they foresee considerable pressure to change traditional PSBs. They suggest that 'deep fiscal crisis might encourage a renewed stress on the kind of hard-core economic rationalism often said to have gone out of fashion by the late 1980s... putting primary emphasis on cutting headcounts, reorganizing services into structures that are more readily cost controllable, axing activities with no immediate apparent payoff...' (Lodge & Hood 2012: 83-4).

In contrast to this market conforming approach, a social equity interpretation of PSB reform envisages the rediscovery of traditional public service values, public service motivation, and re-commitment to the shared responsibilities of political and administrative elites (Bozeman 2007). In this approach, public-interest rather than contractual accountability concerns are

prominent, and changes to the terms and conditions of employment are preferred to headcount reductions. The social equity model also envisages a strong emphasis on the distinction between public and private sector employment, and is more resistant to NPM-style personnel management reforms, with a view to retaining strong state-centred policy capacity.

### *Reform theme 3: Organizational change*

Economic crisis focuses attention on the size and structure of the state itself. Organizational change affecting the manner of public governance may mean several things. It may be driven by an ambition to cut back on the substantive scope of state activities by closing state agencies and suppressing their functions entirely. Or it may be driven by more diffuse efficiency considerations. A renewed concern for 'joined-up government' led a number of countries to seek efficiencies by recentralizing policy-making and policy implementation capacity within Ministries (Bouckaert, Peters, & Verhoest 2010). Just as the preference for delegated governance that lay behind New Public Management (NPM) spread internationally during the 1980s and 1990s, so ideas associated with 'post-NPM' gained in popularity during the 2000s (T. Christensen & Laegreid 2007). The result is likely to involve a palimpsest of organizational inheritances, in which some functions and activities are decentralized, others centrally managed, and yet others are suppressed altogether.

In the market-conforming model of reform, we might expect to see a bias toward widespread terminations of public organizations as the economy contracts as the state retreats from particular policy domains. We might also expect to find a return to 'command

and control' or centralized management of the administrative system, and a search for standardization and conformity as part of general cost containment.

In contrast, the social equity model might lead us to expect less emphasis on a 'bonfire of the quangos', and instead an emphasis on finding new methods of organizational co-ordination, including integration of back-office functions. Organizational mergers may be preferred to closures, in order to reduce duplication while preserving levels of service provision and organizational autonomy. This scenario would also see local managers being involved in decisions over where best to cut spending and leading on the change process.

### **Financing the state: Reconfiguration of public budgets**

Having established our paradigm framework, we turn to the Irish case. Table 3 summarizes its main socio-economic indicators over the period from 2007 to 2013. It identifies that the sharp contraction in GDP and economic growth post-2007 was matched by a correspondingly rapid increase in unemployment. It shows too that that while governments' fiscal effort was concentrated on reducing the deficit from its peak of almost 15% of GDP in 2009 (the spike of 31% of GDP in 2010 arising from one-off bank bailout costs), public debt increased from about 25% of GDP just before the crisis to 124% in 2013.

**Table 3: Ireland 2007-13: Main socio-economic indicators**

	2007	2008	2009	2010	2011	2012	2013
<b>Real GDP growth rate (%)</b>	5,4	-2,1	-5,5	-0,8	1,4	0.9	-0.3

<b>General government deficit/surplus (% of GDP)</b>	0,1	-7,4	-13,9	-30,9	-13,4	-7,6	-7,3
<b>General government gross debt (% of GDP)</b>	25,1	44,5	64,9	92,2	106,4	117,6	124
<b>Inflation (HICP)</b>	2,9	3,1	-1,7	-1,6	1,2	1,9	0,5
<b>Unemployment rate (ILO)</b>	4,7	6,4	12,0	13,9	14,6	14,7	13,2

Source: Eurostat

The decision to provide a blanket guarantee to all domestic bank liabilities in September 2008 greatly worsened the developing fiscal crisis. The cost of bank bailouts amounts to some 40% of GDP (Clarke & Hardiman 2012).

Between July 2008 and end-2013, Ireland had eight episodes of fiscal adjustment. By 2014, the total adjustment amounted to almost €30bn, through a combination of spending cuts and increased taxation. And in fact the Irish government's National Recovery Plan 2011-2014 was worked out in parallel with the terms of the Troika loan programme: Irish governments' priorities in the overall structure of fiscal adjustment did not depart significantly from the 'orthodox' strategy proposed by the external lenders (Dellepiane-Avellaneda & Hardiman 2012b). The profile of Irish fiscal adjustment between 2008 and 2013 is summarized in Table 4.

**Table 4. Composition of Irish fiscal adjustment strategy, 2008-2012**

<b>Intervention</b>	<b>Key budgetary measures</b>	<b>Size of fiscal effort</b>
July 2008: Expenditure adjustments	Efficiency cuts	€1bn
October 2008: Budget 2009	Income levy; spending cuts, including welfare	€2bn
February 2009: Expenditure Adjustments	Cuts to public sector pay as 'pension levy'; public sector pay increase stopped	€2.1bn (€1bn in 2010)
April 2009: Supplementary Budget	Tax increases esp. levy; current , €600m capital	€1.2bn €3.6bn Total €5.4bn €1.8bn
December 2009: Budget 2010	Spending cuts on all welfare, public sector pay and numbers; capital cuts; tax increases	€4.4bn
December 2010: Budget 2011	Current cuts €2.1bn, capital cuts €1.9bn, other €0.7bn; tax increases €1.4bn	National Recovery Plan 2011-2014 projects €10bn cuts, €5bn tax
December 2011: Budget 2012	Current cuts €1.4bn, capital cuts €0.8bn, Tax increases €1bn	€3.2bn
October 2013: Budget 2014	Current cuts €1.6bn, capital cuts, Tax increases	€2.5bn
Adjustment 2008-2013		€23.3bn
Projected overall adjustment 2008-2015 (65% Expenditure, 35% Revenue)		€29.6bn

Source: Authors' calculations

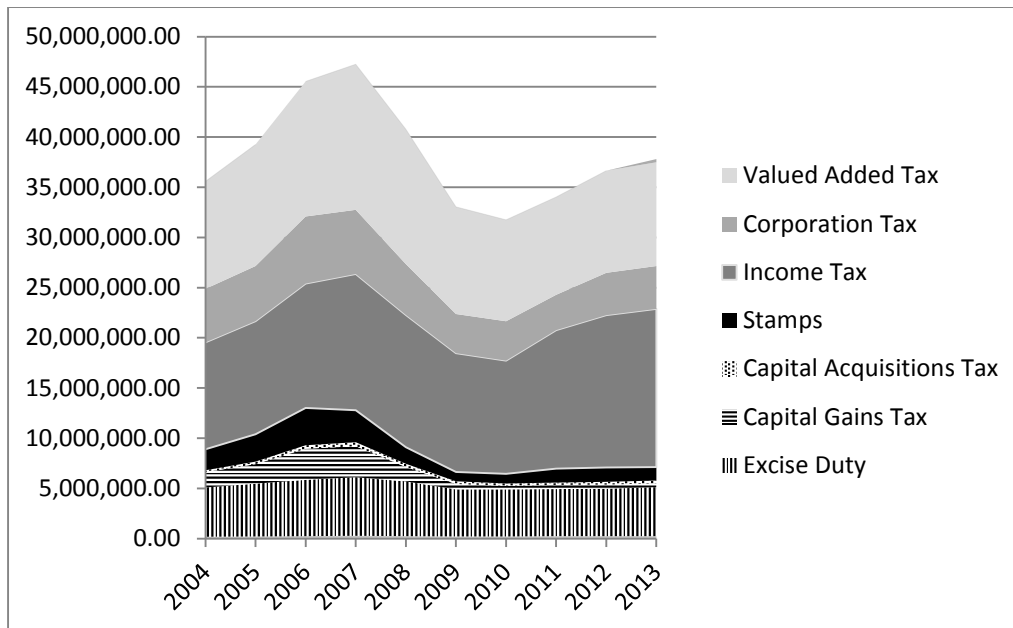
While spending cuts were responsible for about twice the volume of fiscal effort as tax increases, the importance of tax increases should not be underestimated. Part of the

crisis of revenues in Ireland followed from the distortions that had been introduced into the tax system over time. Increases in public current spending during the 2000s had been predicated on buoyant revenue that was disproportionately based on the construction boom. At the same time, successive governments had implemented income support policies for the low-paid that took the form of exemptions from income tax (J. Christensen 2010, 2013; Dellepiane-Avellaneda & Hardiman 2012a).

The effect of this was to remove about half of all employees from the income tax net by 2008. Reversing this gap in the revenue system was of course especially painful in the midst of the crisis, and all the more so because the threshold for entering the higher rate of income tax was brought down to very close to the average industrial wage (O'Connor 2013). Marginal tax rates were increased across the board, and the number of people paying tax rose considerably as part of a policy of base broadening. Meanwhile, income, capital, inheritance, indirect, carbon, pensions and property related taxes were also increased.

***Figure 1: Government Revenue 2004-2013***

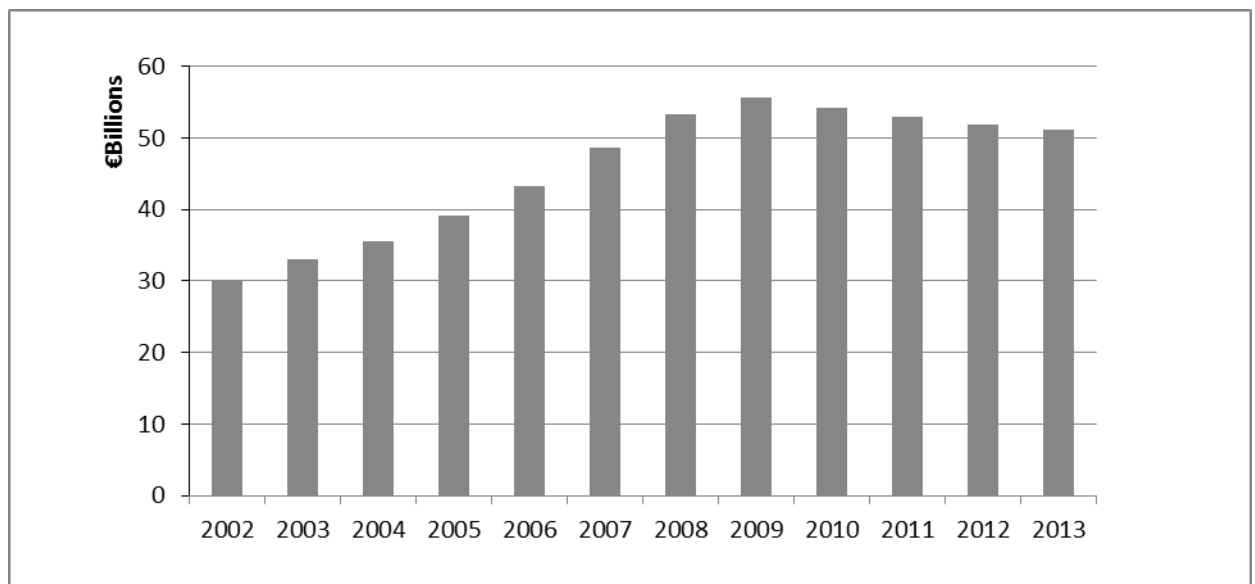




Source: Department of Finance, statbank.ie

On the spending side, cuts fell more heavily on current than on capital spending – a legacy of the lessons inferred by most professional Irish economists from the fiscal retrenchment period of the late 1980s, when stalled capital investments were believed to have delayed recovery excessively. Figure 2 shows the steady rise and subsequent sharp fall-off in total gross expenditure between 2002 and 2013. A large portion of the current spending bill is accounted for by the public service wage and pensions bill, with a quarter of the overall budget going to the health sector and almost a third being spent on social welfare. Cuts to public spending in Ireland have featured a strong emphasis on overall control of spending, and much of the political effort on the part of two successive governments was concentrated on reduction of total numbers in public sector employment (below).

**Figure 2: Current Government Spending (pay and non-pay, gross), 2002-2013**



Source: Department of Public Expenditure and Reform Databank (2013)

Budget allocations by sector show a highly differentiated impact across areas of activity.

Health services suffered a real drop, while spending on social protection programmes increased sharply between 2007 and 2009, as a result of the increasing reliance on welfare measures due to rising unemployment. Recipients of almost all categories of welfare benefits suffered direct cuts to their entitlements during 2009, and so also did all public service employees. In addition, changes were made to eligibility criteria and the type of assistance claimants can call upon.

What then can we infer about the motivation and outcomes of the fiscal consolidation strategy pursued by two successive governments? Is there evidence of a systematic approach to rolling back the welfare state and the acceptance of welfare ideology? Or is

there evidence of the primacy of equity-based considerations in the impact of tax increases and spending cuts? The evidence, in our view, is ambiguous. Both governments adhered to the discourse of business-led recovery, in line with Ireland's long-established growth model based on attracting foreign direct investment through a combination of low-tax incentives and labour force flexibility. But this does not necessarily betoken hostility to social spending or welfare services.

That is not to say that the effects of austerity have not been real and palpable. One of the principal outcomes of the retrenchment measures in Ireland has been to prevent public spending from continuing on the upward trajectory on which it was headed during the 2000s. The austerity measures, while severe, did not necessarily entail the withdrawal of money from the economy on the scale implied by the total headline figures. It has been estimated that if no action had been undertaken, the deficit in 2011 would have risen to 20% of GDP, and Ireland would have been heading for a debt to GDP ratio of 180% GDP by 2014 or 2015 (Coffey 2011).

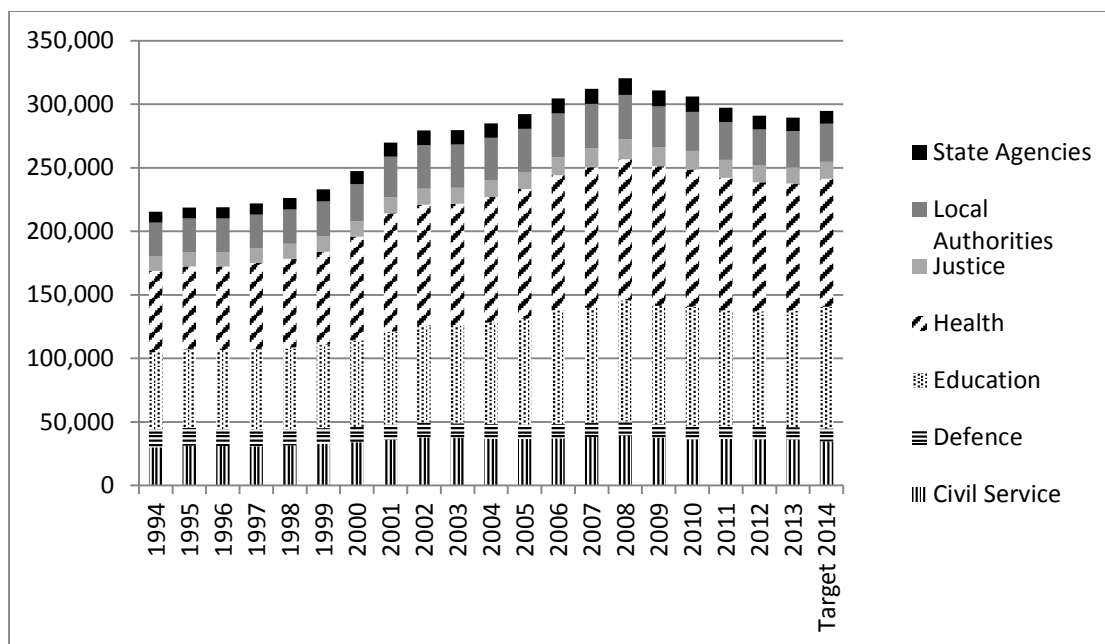
In summary, we might conclude that governments between 2008 and 2013 implemented orthodox, market-conforming fiscal priorities, albeit with some differences in emphasis and impact. However, in neither case can we see a principled and systematic attempt to weaken or erode the welfare state. And yet the cumulative impact of sustained spending cuts on an already quite thin welfare state structure imposed growing levels of hardship on the socially and economically most vulnerable.

## The public service bargain: transformed or trimmed?

The second theme to be considered is the extent to which the Irish public service bargain (PSB) was fundamentally altered in response to the crisis. Lodge and Hood (2012) expected that states experiencing 'high financial vulnerability' as a result of the crisis would adopt a strong push-back on the public service bargain: we find that most of their expectations were indeed met in the Irish case. Despite considerable changes in Whitehall-type systems elsewhere (Paun & Harris 2012) the traditional PSB in Ireland remained resistant to substantive reform through the NPM era, and public service numbers and remuneration had increased steadily during the decade prior to the 2008.

A blanket public sector recruitment embargo was imposed across all sectors from 2008. Incentivized early retirement schemes further reduced the headcount. This is in principle a 'cheese-parer' approach, though it is vulnerable to differential levels of sectoral interest in taking advantage of incentive schemes. Figure 3 shows that total employment in the public sector saw a marked decline as planned, achieved primarily through the recruitment embargo, normal retirements, and incentivized early retirements. An overall reduction of some 25000 personnel (albeit on pre-crisis 2008 figures) by 2014 had been agreed with the EU-ECB-IMF in November 2010 as part of Ireland's bailout deal. By 2011, the cost of employing public servants still accounted for a large portion of the annual budget, with almost one-third of current expenditure accounted for by pay.

***Figure 3. Public Service Employment in Ireland 1994-2013, (with 2014 target as agreed with Troika)***



Source: Department of Public Expenditure and Reform Databank (2013)

Reducing the numbers in employment through a recruitment embargo and early retirement was just one strategy for dealing with crisis, and a more substantive change in the Irish PSB is apparent in two policy areas. First, the 2007-11 Fianna Fáil government pressed the public sector unions to accept deep pay cuts, in preference to negotiating less readily ascertainable efficiency-based changes to work practices. The subsequent Fine Gael-Labour government elected in 2011 pushed for another direct cut to public sector pay. . The public sector unions reluctantly acquiesced in these developments, believing the alternative could have been even worse. Secondly, the crisis has seen a renewal of government commitment to actively managing the terms and conditions of public sector employment to increase both efficiency and accountability. This was closely tied to the terms of the two public sector agreements in

which the scale of pay cuts imposed was conditional upon compliance with flexibility in work practices and widespread redeployment of personnel.

Public sector pay had improved considerably for most categories of employment during the 2000s, following a series of 'benchmarking' reviews that linked public sector salary scales to those of a selection of private sector professions. While attempts to establish comparability proved notoriously contentious, the relative gap between public and private sector workers almost doubled from 14 to 26 per cent between 2003 and 2006 alone (Kelly, McGuinness, & O'Connell 2009). Following the onset of the crisis in late 2008, public sector pay increases scheduled for payment in 2009 were not paid. Instead, a 'pension levy' was introduced for all existing public servants, justified on the premium attached to public service pensions.

In the Budget for 2010, public sector pay was cut again on a tiered basis. Adjustments to future but not current pension provisions were also introduced so that amounts received would be based on 'career average' earnings rather than final salary. The minimum pensionable age for new entrants was raised from 65 to 66. The EU-IMF progress report of March 2012 reported that as a result of these measures, the gross rates of public service pay were reduced by about 14% cumulatively over 2009 and 2010.

The new government which came to power in early 2011 agreed to honour the terms of a deal struck by the previous administration with the trade unions (the 'Croke Park Agreement') in 2010, due to run to 2014. This deal included industrial peace in return for no further pay cuts, no compulsory redundancies in return for staff re-deployment, a reduction in staff numbers, the creation of a unified public service labour market, and more external recruitment. In early 2013, however, as the need for further savings became clear, this

government sought to renegotiate the terms of the Agreement. The proposals included new pay cuts, increased working hours, reductions in overtime and premium pay, strengthened performance management arrangements, and restructuring of employment grades. Initially rejected by the constituent unions, a revised 'Haddington Road' agreement provided for €1bn in savings, and was eventually accepted.

Both governments therefore sought to establish a new agreement with public sector unions (Roche 2011). The terms of these agreements were distinctly market-conforming. The trade-off involved a government undertaking to desist from further direct pay cuts, in exchange for increased flexibility and enhanced productivity in work practices. An emphasis on skills and position-based recruitment, as opposed to general entry and training on the job, also represented an important new departure. In effect, governments used consultation under conditions of duress to achieve what negotiation had conspicuously failed to achieve in the past (Hardiman & MacCarthaigh 2011).

Other significant changes in the public service bargain were also afoot. The government elected in 2011 made a commitment to establishing clear legal boundaries between bureaucrats and Ministers. The allocation of accountability is an ongoing problem facing democratic governments (Behn 2001; Philp 2009). Public service accountability had long been politically problematic in Ireland, where the conventional response to policy failures and public scandals was the impersonal and unattributable finding that 'the system was to blame'. This was all the more problematic in a context in which no serious public effort had been undertaken to establish accountability for the enormous banking and financial crisis that befell the state in 2008 (Hardiman 2010; MacCarthaigh 2012a).

Changes in the mid-1990s had sought to devolve more managerial responsibilities from Ministers to senior civil servants, but the effects were limited. The new government committed itself to clarifying accountability roles across the political-administrative divide, and augment the powers of parliamentary committees to hold individual public servants to account. The newly established Department of Public Expenditure and Reform developed proposals to ‘spell out the legal relationship between Ministers and their civil servants and their legal accountability for decisions and for the management of Departments’. It also permitted civil servants to comment on policy matters in parliamentary committees (Department of Public Expenditure and Reform 2011: 29).

Using Hood and Lodge’s ‘bargain’ framework, Table 5 below sets out in more detail these changes by comparing the situation prior to and following the 2008 crisis.

**Table 5: The changing character of the Irish Public Service Bargain**

Aspect of PSB (Hood and Lodge 2006)	Pre-Crisis	Post-Crisis
Reward (tenure, remuneration)	Sectorally-organized public service labour market	Moves towards a more fluid public service labour market
	Job security	Job security, but subject to increased conditions and review
	Largely closed recruitment to senior levels	Fully open recruitment at senior levels
	Weak linkage between performance and pay	Establishment of minimum standards for pay increases
	Steady increases in pay, routinely benchmarked	Reduced pay by means of cuts, levies, lower pay scales for new entrants. Annual increments suspended.



	Defined benefit pensions, tax-free lump sum	Pensions based on career earning average, existing pensions taxed, revised pension schemes for new recruits.
Competence	Emphasis on generalist skills, 'on the job' learning for specialist tasks	Direct recruitment of experts, civil servants to undertake private sector work placements
	Use of agency form for policy development and expert recruitment.	Re-integration of policy advice functions from agencies.
	Extensive use of external consultancies.	Limited use of external consultancies.
Loyalty	Minister politically responsible for Department, some devolution of managerial responsibility to senior bureaucrats during 1990s.	Initiatives to provide for much greater devolution and demarcation of accountability.
	Civil servants prohibited from commenting on policy at parliamentary committees	Civil servants to be given greater latitude to comment on policy matters

In summary, the return to strong managerial discretion in setting pay rates, and the emphasis on strengthening controls over work organization, may seem to signal a push toward market-conforming priorities, analogous to private sector management prerogatives. However, it is also important to recognize that public sector employees in Ireland retained many extremely valuable employment benefits, including securing of employment and unfunded pension entitlements payable from current revenues. The changes did not reflect an onslaught on these core features of the public sector bargain. And the push for increased openness and transparency were driven not only by efficiency considerations, but by norms

of democratic participation and accountability to which the social-equity approach would certainly be sympathetic.

### **Organizational change: Reversing delegated governance?**

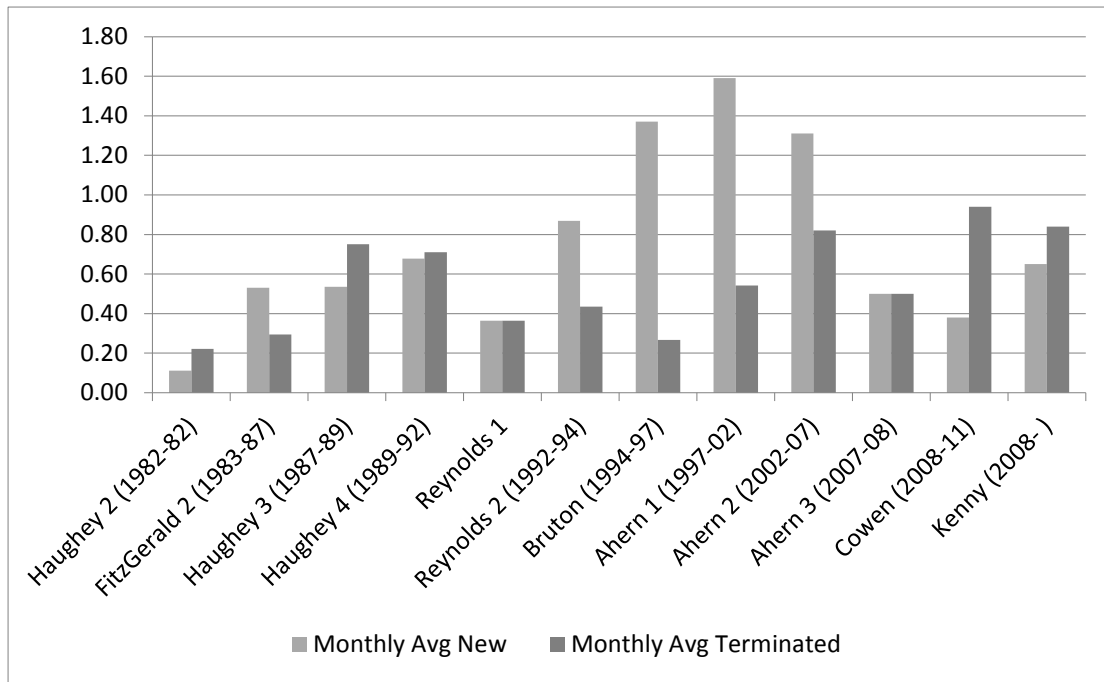
The final theme to be considered is that of organizational change within the Irish administrative system. This must be considered in two arenas at national level: ministerial departments, and arm's-length bodies or agencies. In both we find that important changes have occurred, and again must be examined to determine whether they reflect market or social equity concerns.

Turning first to central government, the dominant reform was the creation in 2011 of a new Department of Public Expenditure and Reform. This broke the duopoly at the heart of Irish government in which decision-making power was shared, and contested, between the Finance and Prime Minister's (Taoiseach's) Departments (Hardiman, Regan, & Shayne 2012; O'Malley & MacCarthaigh 2012). Assuming functions from both, the new Department combined revenue expenditure functions with public service management reform and industrial relations issues. The Department of Finance was left to focus on budgetary and macroeconomic issues, including revenue collection.

A strong trend has long been apparent in Irish public administration to create new public agencies to take on new policy tasks. This arose less from NPM-inspired delegation of responsibilities than from perceived shortcomings in the skill composition of the generalist civil service (Hardiman & Scott 2010, 2012; MacCarthaigh 2012b). Under pressure of an earlier fiscal crisis, many public agencies were closed; indeed, between 1987 and 1992, as

Figure 4 shows, agency terminations slightly outstripped agency creations. But during the 1990s and 2000s, the aggregate number of agencies took a sharp upward turn. And while this growth is not unique to Ireland, its comparatively unregulated development in the fifteen years prior to 2008 resulted in what the OECD termed a 'complex organizational zoo', consisting of a considerable number and variety of public service organizations (OECD 2008; Verhoest, van Thiel, Bouckaert, & Laegreid 2012).

***Figure 4: Average monthly number of agency creations and terminations by government, 1982-2012***



Source: Hardiman et al. 2014, [www.isad.ie](http://www.isad.ie)

As the crisis began to unfold in late 2008, the government published proposals for a reduction in the number of state agencies (Report of the Special Group on Public Service Numbers and Expenditure Programmes 2009). These rapidly-prepared plans envisaged a range of options for agency rationalization, including sharing of back office functions, amalgamations to create new agencies, and the reabsorption of agencies by parent departments. In total, the proposals envisage the number of agencies being reduced by 33. Figure 4 shows that during the Cowen-led Fianna Fáil-led government of 2008-11, there was a sharp increase in the number of agency terminations. But these were the ‘low hanging fruit’ – principally small, non-statutory bodies with small budgets and few personnel. It proved more problematic to close larger bodies that enjoyed statutory autonomy, significant budgets and personnel, and complex liabilities and outstanding contractual agreements. In

part, this explains the preference for organizational absorptions into parent Departments over mergers of bodies into new agencies, or indeed straightforward terminations. As a result, the functional responsibilities of the state were not reduced very little; rather, the organizational mode of delivery altered. Furthermore, the principal emphasis was on reassessing the formal agency-Department framework. The allocation of policy responsibilities was considered only as a secondary matter.

During the election campaign in early 2011, political and administrative reform was for the first time a prominent electoral issue, and gave a new impetus to agency rationalization. The new public service reform plan identified 48 bodies for rationalization by the end of 2012, and another 46 bodies which would be subject to a 'critical review' by the end of June 2012. Not all of these bodies were national agencies, however, and quite a few of these rationalizations involved local and regional organizations. The 2011 plan also proposed changes including new performance frameworks and service level agreements between Department and agencies, sunset clauses for new agencies and the removal of agency boards where possible.

The critical review process placed the responsibility on the various parent Departments to manage the process, but gave the Department of Public Expenditure and Reform a role of central oversight, though without serious sanctioning powers.

What appears to be in evidence here is the influence of post-NPM ideas concerning re-centralization of political control, the closing of the gap between policy development and implementation, new forms of co-ordination, and an enduring emphasis on performance. In October 2012, a review of the rationalization process gave an upbeat report on progress,

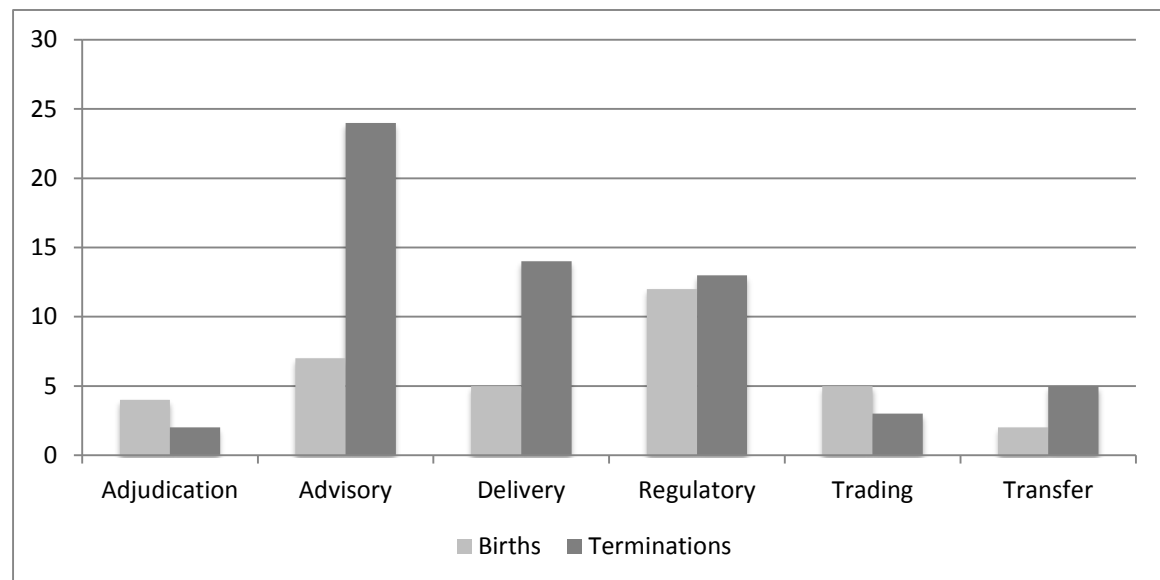
noting that all but one of the proposed 48 rationalizations for 2012 was under way.

However, closer analysis revealed that only 17 of the remaining 47 rationalizations were to be completed by the end of 2012, with the remainder still at the planning stage, including the drafting of necessary legislation.

In respect of the 46 agencies subject to critical review, 24 were to be rationalized (mainly by means of mergers and absorptions), while 10 were to remain in existence, and a decision on the remainder was deferred. The process took longer than envisaged mainly because the variety of responsibilities and roles performed by agencies meant a longer time-frame was needed to plan for necessary legislative measures.

Figure 5 below presents the aggregate number of agency terminations over the years 2008-13 inclusive. It identifies that agencies performing advisory functions were the largest cohort of agencies terminated, while a large number of service delivery and regulatory agencies were also closed. It also shows that the trajectory of change is not solely in the direction of agency terminations. We also find new agencies emerging, particularly in the regulatory arena. Interestingly, rather than witnessing the widespread privatization of state-owned or 'trading' commercial enterprises, as might be expected in recession conditions, the Irish state actually increased its stock of such organizations, in some cases through nationalization of near-insolvent banks.

**Figure 5: Number of agency births and creations by function, 2008-13**



Source: Hardiman et al. 2014, [www.isad.ie](http://www.isad.ie)

The Irish agency reform programme has been heavily infused with ideas from international private sector management, including 'shared services' to generate efficiencies (MacCarthaigh 2014). In a similar vein, all government procurement is now managed by a single entity. A number of outsourcing initiatives were progressed with relatively little opposition. A significant characteristic of the reforms initiated over 2011-13 was that they were centrally created and implemented, with a strong impetus provided by a Cabinet sub-committee on public service reform.

But this should not be taken to signify a principled turn toward a unilateral and hierarchical mode of public management. By 2014, a new approach was adopted which sought to achieve greater management acceptance of the need for ongoing reforms. A series of ‘town hall’ meetings were held between the Department officials and civil servants across the state, to build support for the next round of reform. It remains to be seen whether this signalled the strength of the reforming drive, such that its proponents could strengthen support for the new priorities, or a return to an older style of conflict aversion and political antipathy to maintaining a strong drive behind a reform programme.

Table 6 summarizes the actual policy stance of Irish government in three areas of policy choice identified in Table 2.

**Table 6: Evidence of market conforming or social equity reforms in Ireland**

Reform themes	Characteristics of market conforming approach	Characteristics of social equity approach	Ireland
<b>Reconfiguration of public budgets</b>	Front loading of cuts, ‘Cold shower’ approach	Progressive cuts to welfare, education & health spending, deeper cuts to capital than current budgets	Market conforming fiscal reform focus dominant, though with an ongoing political support for the welfare state
<b>Public Service Bargain</b>	Move towards more contractual bargain, cuts in headcount numbers	Emphasis on shared responsibilities and accountability, public service motivation	Market conforming focus dominant, though lacking any systematic attempt to weaken trade union organization strength and influence



<b>Organizational change</b>	Widespread organizational closures/terminations, centralized management, new Ministries to manage cuts	Emphasis on stronger agency co-ordination, integration and mergers, decentralized management, Ministries to focus on policy co-ordination	Mixed: evidence of both approaches
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In all three areas we find mixed results, though in relation to public budgets and the public service bargain, a more dominant trajectory of reform is emerging. The strong emphasis on making the public service more efficient and effective certainly appeared to align governments' objectives to the market-conforming approach. This would be consistent with Ireland's growth model, which depends heavily on encouraging direct foreign investment. But this has not been associated with ideologically motivated hostility to the welfare state, or indeed to state activism more generally. Cuts to welfare entitlements brought real rates back to levels that had prevailed in the early 2000s, but not below. Many commentators argued that there was scope for efficiency gains in a public sector in which fiscal disciplines had been allowed to become quite slack during the 2000s. On the other hand, it could not be held that Ireland has moved any further toward a commitment to priorities based on a social-equity approach. The prevailing framework of public policy is tolerant of high and enduring levels of inequality resulting from a low total tax take, low rates of social insurance contributions for both employers and employees, and relatively low levels of public service

provision. The sustained process of year-on-year cuts in spending resulted in significant worsening of already relatively poor public services provision, with particularly hard consequences for the poorest and most vulnerable sectors of the population.

The broad profile of state retrenchment did not change significantly from one government to another, despite the participation of the Labour Party in government after February 2011. Support for the Labour Party is much smaller than in other western European societies, and class-based cleavages are unusually weak in Irish politics. Indeed, the Labour Party chose to assume responsibility for the Department that would be charged with the administrative reforms and cost savings agenda. The absence of partisan political divisions on the content of the reforms provided a strong basis for their implementation. But the traditional Irish party system may be subject to a more far-reaching challenge in the wake of the crisis. The historically dominant Fianna Fáil all but imploded in 2011; but support for the Labour Party also fell dramatically as a direct consequence of government tax and spending policy. Disillusioned voters flocked to smaller left-wing parties and to a plethora of independent candidates (Dellepiane-Avellaneda & Hardiman 2015).

Ireland provides an interesting case-study for the implementation of post-NPM reforms. Outsourcing, co-production, shared services, organizational mergers, devolution and other forms of marketization and decentralization were all underway. Yet at the same time, traditional bureaucratic ideas that place government departments and the senior civil service at the centre of policy formulation still held centre-stage. Further research will determine the outcome of these competing dynamics, and their consequences for the politics of reform.

## Conclusion

This paper has examined the implicit ideational framework underlying Irish government responses to fiscal crisis. Focusing on actual policy decisions, we have assessed whether these entailed either a systematic retrenchment of a market-conforming kind, rolling back welfare provision and reducing the scope of state action, or a policy response guided by social equity and an ongoing commitment to a strong state role in economy and society. We considered these two possibilities in relation to three related themes: the reconfiguration of public budgets in both spending and taxation and the distributive consequences that follow; the remaking of the public service pay bargain; and the organizational reconfiguration of state competences. We noted that the Irish party system was not conducive to left-right ideological competition between the alternative governments that held power between 2007 and 2011, and from 2011 onwards. But what appears to be a pragmatic approach to policy choice may nonetheless contain hidden choices between contrasting clusters of policy options.

The contribution of this paper has been to focus on the extent to which these two alternative clusters of values and distributive preferences played out in key policy fields. We identify a mixed set of outcomes. But by setting the choices made against a policy paradigms framework we can better understand the Irish experience of state retrenchment and administrative reform, and assess the extent to which hard choices have in fact been made. The framework we have proposed provides a template for comparative analysis of policy responses to austerity. Indeed more cross-national comparative work on this basis could usefully develop the relationship between policy paradigms and reform content, with a view

to determining the consequences of crisis-inspired political choices for the shape and scope of state retrenchment.

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